

21 August 1986

ERRATUM

Notice to recipients of Typescript Memorandum
ALA M 86-20041, Brazil Arms Sales to Libya:
Improving Prospects [redacted]

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The first paragraph should read:

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The Brazilian press continues to report major arms contracts with Libya. These stories have been consistently denied by government and industry officials, and we have no conclusive evidence of new sales. [redacted]

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[redacted] We believe that some deliveries may be taking place this year [redacted] and fueling speculation about new arms contracts. Based on [redacted] confirmed financial transactions, we place the value of Brazil's sales between 1980-1985 at no more than \$47 million. [redacted]

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Central Intelligence Agency

OIR 3P & PD 1

Washington, D.C. 20505

19 August 1986

Brazilian Arms Sales to Libya: Improving Prospects

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Summary

Despite persistent stories in the Brazilian press over the last eight months of new arms sales to Libya . As the political fallout from terrorist attacks in Rome and Vienna fades over time, however, we believe Sarney could accede to pressure to permit new sales, especially for equipment which could not be utilized by terrorists.

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The Brazilian press continues to report major new arms contracts with Libya. These stories have been consistently denied by government and industry officials, and we have no conclusive evidence of new sales.

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We believe that some deliveries may have taken place this year and that this has fueled speculation about new arms contracts.

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Nevertheless, Libyan "arms purchasing" delegations continue to travel to Brazil seeking weapons. At least three such visits have reportedly occurred since March, but there is no indicating that deals have been struck.

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negotiations between local industrialists and the Libyans are being tolerated by Brasilia.

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Of greatest concern, in our view, is a recent story in the reliable Brazilian weekly magazine,

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This memorandum was requested by the Director of Brazilian Affairs, Mr. T. Elkin Taylor of Department of State. It was prepared by South America Division, Office of African and Latin American Analysis. Information as of 19 August, was used in the preparation of this paper. Questions and comments may be directed to the Chief, Brazil Branch, South America Division, ALA

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[REDACTED]

Veja, indicating that the government had decided to authorize, in principle, arms sales to Libya, providing that the weapons could not be used for terrorist purposes. [REDACTED]

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In our opinion, as memories of the terrorist attacks in Rome and Vienna fade, the diplomatic and political pressure on Sarney not to sell arms to Qadhafi is receding. Concurrently, the economic pressure on him to permit such sales is increasing. We believe two of Brazil's three major defense companies, Engesa and Avibras, have had very slack sales in 1985 and 1986, despite highly publicized negotiations for new arms sales. Reportedly Engesa is experiencing difficult cash-flow problems. Brazil's inability to nail down contracts potentially worth about \$1-2 billion [REDACTED] is probably contributing to Engesa's reported financial problems. [REDACTED]

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New arms sales to Libya are now possible, in our view, if the Libyans come up with cash or offer an extremely attractive oil-for-arms barter trade agreement. We believe the Brazilians would permit new sales of armored fighting vehicles, tanks, artillery, and aircraft, but not small arms, mines, and grenades. In our view Brazil is unlikely to conclude any new sales in advance of Sarney's pending visit to Washington. If US-Brazilian relations cool, however, we believe Sarney will be more likely to consider new sales. [REDACTED]

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SUBJECT: Brazilian Arms Sales to Libya: Improving Prospects

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